

2 SEP 1948

Approved For Release 2006/03/16 : CIA-RDP78-01617A006000040026-0

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GENERAL

1. USSR seeks CFM meeting on Italian colonies--According to US Embassy London, the Soviet representative at the meetings of the Deputy Foreign Ministers has expressed the firm view of his government that, in accordance with the Italian Peace Treaty, the Italian colonies question must go to the Council of Foreign Ministers (CFM) before 15 September. (By the terms of the treaty, the question is automatically referred on this date to the UN General Assembly.) In answer to a query whether the USSR would initiate steps to convene the CFM, the Soviet Deputy replied that further steps "are up to the Soviet Government."

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(CIA Comment: CIA believes that the USSR will seek a CFM meeting on the Italian colonies if only for the propaganda potential of a possible western power refusal to meet.)

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2. Quick decision on German reparations urged--US Ambassador Douglas in London strongly urges that there be no further postponement of a final decision on the question of the German plants to be made available for reparations. Douglas believes that such postponement, by accentuating suspicions regarding US intentions to honor obligations concerning reparations, might very seriously and adversely affect US ability to establish a united front among the western powers and might have very unfortunate consequences in France and Germany.

British relations with OEEC --Ambassador Douglas observes that although the British may have given the impression of "dragging their feet" in the Organization for European Economic Cooperation (OEEC), it would be a mistake to conclude that British disagreement with US proposals indicates obstructionism. Douglas reports that ECA relations with the British in London are conducted in an atmosphere of mutual collaboration and confidence. However, Douglas considers that: (a) the development by the UK of a four-year economic program to achieve basic OEEC objectives has been slow; (b) the UK Government

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15 MAR 1978

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should exert more pressure on "timid and vacillating" British labor leaders to collaborate with US and European labor groups in a common program for Europe; and (c) the British representative at the OEEC in Paris should be replaced because of the friction he causes. The Ambassador expresses concern that US objectives in Europe may not have been clearly worked out so as "to take into account economic and other complexities of the European picture."

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- 3. US favors simultaneous recognition of Israel, Transjordan--**
 The Department of State has requested US Ambassador Douglas in London to solicit Foreign Secretary Bevin's comment on the following position, as approved by the President, regarding recognition of Israel and Transjordan: (a) the US should plan for simultaneous de jure recognition of the two countries; (b) recognition should follow the election of a permanent government in Israel, which is scheduled to take place about 1 October; and (c) the intervening time should be utilized in discussing the question of recognition with the Provisional Government of Israel and with Transjordan. The Department expresses the view that US recognition of Transjordan might induce the UK to give favorable consideration to recognition of Israel.

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NEAR EAST-AFRICA

- 4. IRAN: Shah bitter about "inadequacy" of US aid--**US Ambassador Wiley reports that the Shah is extremely disconcerted over what he regards as the inadequacies of the US arms credit program. In a long conversation with Wiley, the Shah repeatedly contrasted US military assistance to Turkey with that provided Iran and asserted that the US had apparently completely ignored the strategic importance of his country. The Shah added that he considered US aid so inadequate that he was seriously considering abandoning his plans for organized resistance in the event of Soviet aggression. Wiley comments that the Shah's state of mind is "clearly something that should be taken seriously."

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5. CHINA: Increased aid to North China armies--US Ambassador Stuart reports that Chiang Kai-shek has indicated both his desire and intention of supplying increased military aid to Nationalist armies in North China. Stuart indicates that Chiang hopes arrangements can be made for additional US aid or that at least savings can be made in transportation and initial costs under the China aid program. Stuart is sufficiently convinced by the argument that North China can be held with relatively small increase in expenditure to feel that the US should explore the possibilities of shipping supplies in unused naval vessels.

(CIA Comment: CIA believes that Chiang's apparent reversal of his previous attitude of withholding aid from North China is largely explained by his realization that: (a) the position of the North China forces is so precarious that without further material assistance, these forces will probably be unable to continue effective resistance for any length of time against the Communists; (b) US aid to North China may be a cheap way of forestalling a potential separatist movement in that area; and (c) if North China is lost to the Communists, the US may become more reluctant to continue assistance to the disintegrating Nanking regime.)

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